

Message Text

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PAGE 01 BRASIL 02909 131537Z
ACTION ARA-10

INFO OCT-01 ISO-00 EB-08 /019 W
-----131916Z 055757 /47

R 131420Z APR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 1055
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 2909

E.O. 11652: N/A
TAGS: BENC BR
SUBJECT: MAJOR PROJECT - MENDES JUNIOR STEEL

REF: STATE 072736

FOLLOWING MESSAGE PREPARED BY RIO:

HIGH LEVEL MENDES JR. SOURCE STATES THAT COMPANY'S JUIZ DE FORA (MINAS GERAIS) STEEL PROJECT IS "ON TRACK", WITH FULL GOB BACKING. BID TIMETABLE HAS NOT YET BEEN ESTABLISHED, BUT \$400,000 CONTRACT WITH ARTHUR D. LITTLE (ADL) HAS BEEN SIGNED. (ADL WILL SET UP PLANT'S ORGANIZATIONAL STRUCTURE.) PLANT WILL PRODUCE SPECIALITY STEEL (RODS AND WIRE), WITH INITIAL PRODUCTION PLANNED BY 1981.

COMMENT: SOME STEEL INDUSTRY SOURCES MAINTAIN THAT MENDES JUNIOR HAS NEVER BEEN ENTHUSIASTIC ABOUT JUIZ DE FORA STEEL PLANT AND WAS "PRESSURED" INTO PROJECT BY GOB - THE LATTER ANXIOUS TO HAVE HIGHLY VISIBLE PRIVATE SECTOR INVOLVEMENT IN MAJOR STEEL PROJECT. IN ADDITION, CONSIDER RECENTLY (3/16) REVEALED A GOVERNMENT INTENTION TO EMPHASIZE THE CONSTRUCTION OF SMALLER, "MINI" STEEL PLANTS (300 - 500,000 TONS ANNUAL CAPACITY), ABLE TO USE LARGER PERCENTAGES OF LIMITED OFFICIAL USE

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BRAZILIAN-SUPPLIED REDUCTANTS (INCLUDING CHARCOAL) THAN TRADITIONAL COKE OVEN OPERATIONS. IN LIGHT OF THESE FACTORS, AND GIVEN RELATIVELY LARGE PROJECTED CAPACITY OF MENDES JUNIOR PLANT (1.2 MILLION TONS IN 1971, 4.8 MILLION TONS BY COMPLETION OF THIRD STAGE), PROJECT'S VIABILITY COULD CONCEIVABLY BE A TARGET FOR REEVALUATION AT SOME FUTURE DATE. ALTERNATIVELY, GOB AND MENDES JUNIOR COULD DECIDE TO SLOW

DOWN PLANT'S CONSTRUCTION TIEMTABLE, OR SIMPLY NOT PROCEED WITH SECOND OR THIRD STAGES. (GOVERNMENT HAS EFFECTIVE POWER TO DICTATE RATE OF PROGRESS AND SCOPE SINCE BNDE IS LENDING MENDES JR. CR\$2.2 BILLION FOR PLANT FINANCING.) HOWEVER, NO AUTHORITATIVE INFORMATION IS AVAILABLE FROM GOB OR MENDES JUNIOR SOURCES TO INDICATE THAT EITHER IS CONSIDERING PROJECT ALTERATION OR TERMINATION. THUS, OFFICIAL MENDES JR. ASSURANCES THAT PROJECT IS MOVING AHEAD NORMALLY MUST BE ACCEPTED AT FACE VALUE AT PRESENT TIME. FYI: NATIONAL STEEL COMPANY (NSC) HAS MADE DIRECT OVERTURES TO MENDES JUNIOR; SOURCES AT LATTER STATE PRIVATELY THAT COMPANY WAS "NOT IMPRESSED" WITH NSC'S PRESENTATION. END FYI.
CRIMMINS

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